



BANK OF GREECE

EUROSYSTEM

Summary of the Greek State plan with the aim of limiting the implications of the global financial crisis

Introduction

The international financial crisis has taken unforeseen proportions with the related uncertainty resulting to the paralysis of financial markets, in particular the interbank one, and to the deterioration of capital markets.

The Greek financial system is solid and sound but bears the consequences of the crisis, especially due to the significant increase of interest rates and the liquidity squeeze at an international level. At the same time, **there is an issue of ensuring a level playing field** with regard to foreign credit institutions as well as among banks operating in Greece.

Despite the fact that credit institutions in Greece face on average less pressure and have not been exposed to toxic assets, it is possible that there is a shift of deposits/placements to institutions of countries that have already intervened either by providing guarantees (as in our case), or by strengthening the capital base or finally through nationalizations (being perceived in this respect safer).

The smooth and effective operation of the financial system is a necessary prerequisite to retain the dynamism of the Greek economy.

The continuation of the present situation with the drying up of the interbank market and with interest rates embodying a high risk premium (mainly due to counterparty risk) is likely to lead gradually to a slow down of credit expansion with significant negative implications in economic growth (slow down of both private consumption and investments). The high interest rate burden of households and enterprises weakens growth, worsens inflationary pressures and enhances the risk of financial instability.

This plan aims at safeguarding the smooth operation of our financial system, strengthening the drivers of economic growth and limiting, to the extent possible, the negative repercussions to Greek citizens.

The Greek plan for the smooth and efficient functioning of the financial system

The plan for limiting the impact of the crisis and ensuring the efficient function of the financial system, amounting to €28 bn, comprises of two pillars: restoring liquidity (both short and medium term) and the option for strengthening the capital base of Greek banks. The measures are of temporary nature and will be

implemented under the continuous monitoring of the Bank of Greece and Government representatives, where envisaged.

Measures for restoring liquidity:

- a) Guarantee of the Hellenic Republic to credit institutions to meet the liquidity needs of the Greek banking system up to €15 bn. This guarantee refers to the issuance of new medium term loans as well as notes that will be issued or refinanced up to the end of 2009 and for a maturity of up to 5 years. This guarantee will be provided either against a fee of up to 100-150 bps or against a charge reflecting the credit risk of the counterparty, as estimated by the Bank of Greece.¹
- b) The Greek State will issue 2, 3 and 5-year specific purpose Treasury bills up to a total value of €8 bn for an immediate support of the liquidity of the interbank market. These bills will be available to systemically important Greek credit institutions for a fee of 50 to 100 bps, depending on their maturity. They will be provided against good quality collateral.

Measures for strengthening the capital base:

- c) Option for strengthening the **capital base** of Greek banks up to an amount of €5 bn. Credit institutions may benefit, **on a voluntary basis**, from the acquisition by the Greek State of preference shares which will be eligible as Tier I capital. These preference shares, which would carry an interest rate up to 10%, would have an embedded repurchase option after a time period of at least 5 years. This participation will be approved by the Ministry of Finance and Economy after the consultation of the Bank of Greece.

When the Government provides guarantee or acquires preference shares, then the participation of the Greek State in the respective bank's Board of Directors should be ensured, with decisive powers regarding the benefits of top management.

¹ This should be perceived as applying to the case of lack of adequate collateral.